338.5
Un44f
cop. 2

OFFICE OF PRICE ADMINISTRATION

MAY 2 1 1947

THE PAYMENT OF SUBSIDIES UNDER THE CANADIAN PRICE CEILING

(Foreign Information Series No. 25)

DIVISION OF RESEARCH
Foreign Information Branch
November 1943

1-6579-114-P1 of 46

THE PAYMENT OF SUBSIDIES UNDER THE CANADIAN PRICE CEILING

TABLE OF CONTENTS

1-6579-P2

TABLE OF CONTENTS (cont'd)

MEMORANDUM

November 15, 1943

TO: Mr. W. S. B. Lacy, Chief

FROM: Barbara Donald,
Canadian Section

SUBJECT: The Payment of Subsidies Under The Canadian Price Ceiling

1. Need For Subsidies Under Price Ceiling

The payment of subsidies has been an essential part of Canadian price control since the government first introduced a comprehensive control system. The principles and administrative organization of the Canadian subsidy program are directly related to the price control policy followed by the government. Canada was the first of the democracies engaged in this war to introduce a general ceiling over the prices of all goods, services, wages and salaries. 1/ This price and income ceiling was introduced in December 1941 and has been more or less rigidly and successfully maintained during the period of nearly two years since its introduction. The cost of living index which had risen approximately 15 percent in the 27 months between August 1939 and December 1941 has risen only slightly more than 3 percent in the 22 months since the establishment of the price ceiling.

In spite of this policy designed to freeze production costs, the government recognized the fact that certain costs could not be controlled or stabilized and that the payment of subsidies was necessary if the general price ceiling was to be maintained. The Wartime Prices and Trade Board had already been granted broad power to institute a subsidy program or at least to recommend the payment of subsidies to the Minister of Finance, the responsible cabinet Minister under which the Board operates. In practice, the Board actually formulates policy and administers the program. When the price ceiling was first introduced the government specifically stated that if there was an unreasonable squeeze between costs and ceiling prices "the government representing the people as a whole, should.....take a share of the burden by way of a subsidy.....or in some other appropriate way". 2/

1/ P.C. 8528, The Wartime Prices and Trade Regulations, November 1, 1941 (consolidated) as amended; P.C. 5963, The Wartime Wages Control Order, July 10, 1942, as amended; P.C. 9298, The Wartime Salaries Order, November 27, 1941, replaced by P.C. 1549, February 27, 1942, as amended

2/ Wartime Prices and Trade Board, Preliminary Statement of Policy, November 21, 1941, p. 5.

In discussing the subsidy policy of the government before the House of Commons in April 23, 1942, the Minister of Finance stated in clear and unequivocal terms the basic reasons for a subsidy program --- "The necessity for subsidies or their equivalent," Mr. Ilsley explained "arises from the fact that the costs of providing goods or services to the Canadian consumer cannot be completely controlled or from the fact that in some cases these costs were actually higher at the time the ceiling was imposed than the level of costs that were then being reflected in the prices charged.......In so far as these costs rise beyond the amount which the industry can absorb with fixed prices, we must either do without these goods, or raise the ceiling on their prices, or else pay subsidies or take some equivalent action to meet these increased costs." 1/

The government decided that sound economic and social policy dictated that the government should take the responsibility of ensuring adequate supplies of essential goods at stable prices. If the price ceiling was to be held, provision for subsidies had to be made. The Minister of Finance emphasized that the decision to pay subsidies to producers rather than grant price increases is based on the assumption that it is a less expensive and less inflationary method of control. He argued that the payment of a small subsidy to producers prevents pyramiding of costs and the far greater total proportionate cost to the government and to the individual that price increases all along the line would entail. Subsidies are no more inflationary than price increases would be. In fact a rise in prices places as much if not more additional spending power in the hands of producers and most important of all, it could not be subjected to as close control as a subsidy.

Subsidies have been paid to serve a variety of purposes:

(1) The major problem inherent in the establishment of a general price ceiling effective simultaneously at the manufacturing, wholesale and retail level is that price relationships between the different levels are out of line. Due to the normal time-lag, many base period costs are not reflected in base-period prices. The resultant "squeeze" primarily at the wholesale and retail level may, if not corrected, result in undesirable, inequitable and in some cases prohibitive burdens on wholesalers and retailers and will dislocate and hamper the production and distribution of civilian goods. Since government policy required a rigid holding of the retail ceiling, the Prices Board handled this problem by "rolling back the squeeze" by means of price reductions or increases at the producing or wholesale level in order to distribute the squeeze equitably, requiring reasonable absorption of the squeeze by industry, the introduction of simplification and standardization programs and wherever warranted the payment of subsidies.

1/ Canada, House of Commons Debates, Thursday April 23, 1942, p. 2046-57.

(2) Certain costs cannot be stabilized no matter how rigid or comprehensive a ceiling is placed over prices and wages. One obvious category of cost which cannot be controlled by the price control agency is imported goods, the prices of which are to a great extent beyond the control of the domestic price control agency. Since imported goods constitute such a significant factor in the Canadian economy, import prices could not be exempted from the general price ceiling and some method had to be adopted to stabilize their prices. Originally, in fact, the Board expected that the chief need for subsidy would be to compensate for increased import prices. Experience under the price ceiling has, however, showed that there are many domestic costs which tend to increase no matter how rigid the ceilings. Unavoidable and uncontrollable increases in real costs in the domestic field arise from the use of less efficient labor, the use of substitute materials, changes in source of supply and form of transportation, and a number of other causes. Unless the government is willing either to permit a decline or in some cases a complete cessation of production or supply, or permit the breaking of the ceiling, these increases in costs must be subsidized.

(3) Subsidies are also necessary to maintain and increase production and supply, particularly in the case of high cost production.

(4) Subsidies are often necessary in wartime where conditions of supply and distribution are frequently abnormal in order to promote the proper flow and allocation of supplies.

(5) Temporary subsidies are often necessary to compensate for inventory losses accompanying a price reduction or as interim measures while a price adjustment is put into effect or while a reduction in costs is secured through rationalization, simplification and standardization programs.

2. Administration of Subsidy Program

The duty of recommending the payment of subsidies in order to restrain increases in the cost of living or to offset uncontrollable increases in other costs was originally entirely granted to the Wartime Prices and Trade Board. The power to authorize and administer subsidy programs has in practice been exercised by the WPTB, subject to the direction of the Minister of Finance. A special corporation, the Commodity Prices Stabilization Corporation (CPSC) was established 1/ to operate under the direction of the Board and this corporation has administered subsidy and purchase and sales operations instituted by the Board. The Prices Board formulates general subsidy policies as well as the formulas and rates employed, except in the case of imports where formulas and rates are worked by the corporation on the basis

1/ P. C. 9870, December 17, 1941

of the general policies approved by the Board. The corporation administers the programs in line with the principles worked out by the Board, verifies claims and makes the actual payments.

Agricultural subsidies of various types have also been paid throughout the war period by the Department of Agriculture and Boards operating under its direction. These subsidies have been principally designed to increase or direct production rather than to control prices. It is difficult, however, to distinguish between these two types of subsidies since most production subsidies operate and in some cases are designed to operate also as price stabilization measures. There has been considerable friction between the Department of Agriculture and the Prices Board regarding the farm price and subsidy policy followed by the Board. In many cases the Department of Agriculture felt that the Board's subsidy program was either inadequate or ill-timed and also argued that higher prices were essential to bring forth sufficient supplies.

In February 1943 a "clarification" of powers and responsibilities between the Department of Agriculture and the WPTB was announced. 1/ The price ceiling even in regard to agricultural products was not relaxed. The Prices Board continues to be responsible for estimating domestic requirements for food for consumer rationing, for food imports and their distribution, for consumer subsidies and has final responsibility in all matters of price. The Department of Agriculture is responsible for securing the required production of agricultural foodstuffs under the price ceilings established by the Prices Board, and if production is not forthcoming the Department and the Board must consult regarding the steps to be taken, which may consist of subsidies, price adjustments or other measures. The Department of Agriculture has, however, been granted the power to recommend subsidies to primary producers and must be consulted by the Prices Board in regard to any consumer subsidies introduced by the latter. The Department is responsible for the necessary diversion of food to the armed forces and other priority users, while the Prices Board controls distribution to civilian consumers. Exports of food (except wheat which is under the jurisdiction of the Department of Trade and Commerce) supplied under contract to any of the United Nations are also supervised by the Department of Agriculture.

Exceptions to this policy of centralized control of price stabilization subsidies are few. The drawback or subsidy paid on wheat to millers in order to maintain ceiling prices on flour in the face of increases in the price of wheat is paid through the Canadian Wheat Board by the Department of Trade and Commerce. In

---

1/ Canada, House of Commons Debates, February 9, 1943, pages 272-274.

addition, a few special production subsidies are paid by the Department of Munitions and Supply, the government agency responsible for the procurement of all war materiel and also responsible for all controls except price over raw and industrial materials and war production.

3. Principles of Subsidy Program

The effectiveness of a subsidy program and price control system cannot be attributed solely to the fact that a subsidy program is in existence and a general price ceiling has been established. Its effectiveness arises chiefly from the techniques used and the policies followed in administering the price control and subsidy program coupled with the general economic and fiscal policies followed by other government agencies. The most important principles of the Canadian subsidy policy are summarized below:

1. Power to authorize and administer subsidies has been granted to the agency which has broad power to control the prices and with some exceptions the supply, production and distribution of all civilian goods and services. All possible production costs have been placed under rigid control. Although wages and salaries are controlled by the National War Labour Board and not by the Wartime Prices and Trade Board, the wage and salary ceiling was imposed at the same time as the general price ceiling and is considered an essential factor in price control policy. Although the Department of Agriculture has always exercised certain controls over agricultural production and distribution, it was not until February 1943 that responsibility for producer subsidies was transferred from the Prices Board to the Department. The Department is responsible for production of food and agricultural products and for certain phases of non-civilian and pre-retail distribution.

2. Subsidies are authorized only on essential goods when adequate supplies are not forthcoming under the established price ceiling.

3. Subsidies are not payable on all cost increases but are strictly limited to the amount which cannot be "reasonably" absorbed by the industry or firm applying for a subsidy. In the case of non-food subsidies, particularly, eligibility for subsidy is often approved only if the industry or firm agrees to special government control of profits. Profit control is achieved through the limitation of subsidy payments to those manufacturers or importers who are not earning excess profits in the 100% bracket (as defined by the Excess Profits Tax Act) exclusive or inclusive of subsidy. Subsidies are therefore not payable to manufacturers or importers in the 100% excess profits tax bracket, i.e. those earning more than 116-2/3 percent of standard profits (normally average profits during the four years 1936 through 1939). The use of this formula relieves the Prices Board of the problem of setting up profit standards and deter-

mining reasonable profits since it accepts the formula and financial data of the Department of National Revenue. Any subsidies paid to manufacturers in the 100% excess profits bracket would be entirely returned to the government in the form of taxes at least during the war (a post war 20 percent refund is provided for). This formula operates to minimize the total cost of the subsidy program and to ensure that unwarranted subsidies are not paid. Irrespective of the profit or loss position of a particular firm in regard to the particular product which may be subsidized, subsidies are often only paid if the overall profit situation of the firm justifies it. The application of profit control tends to minimize the cost of subsidies and to prevent payment of unwarranted subsidies since importers and manufacturers will generally wish to avoid governmental supervision of their books and the additional work of processing and following up applications unless the subsidy is necessary.

4. Even when a subsidy has been authorized in principle, it is not obligatory but may be varied or refused at the discretion of the Corporation if, for example, costs are deemed excessive or the cost or supply situation or profit position of the firm or industry changes. Subsidy programs are kept under continual review. Subsidies may be reduced or abandoned and in a number of instances this has already been done. Where the payment of a uniform rate of subsidy for all manufacturers has been adopted for administrative reasons and this subsidy reduces the net cost of any individual manufacturer or distributor below the cost on which the ceiling is based, either the ceiling price or the subsidy paid must be "correspondingly reduced".

5. Under no condition will a subsidy be permitted to constitute a benefit or to be a source of special profit to the subsidized industry or business firm. In order to qualify for a subsidy, an industry is required to show that it has instituted all passible economies and that its margin of profit is no more than reasonable or necessary. The industry receiving the subsidy must bear a part of the increased costs in respect of which the subsidy is paid and the payment of a subsidy is "conditioned upon certain action which increases the costs or reduces the receipts" of the industry. The net effect of subsidies and price control should leave the industry in a worse, not a better, profit position than before the price ceiling was imposed. 1/

1/ Canada, House of Commons Debates, Thursday April 23, 1942 p.p. 2046-57.

6. Subsidies are paid to benefit the consumer and to keep down the cost of living. Various provisions have been established designed to prevent the payment of subsidies on war goods and production goods. For example, production goods and other non-consumer goods have been declared ineligible for import subsidy. Goods sold to the Department of Munitions and Supply are not eligible for subsidy. A special order has recently been issued providing for the recapture of subsidies which may have been paid for reasons of administrative expediency on goods which are not domestically consumed but are exported or sold as ship stores. In this way subsidies are restricted to civilian commodities domestically consumed. Since the government would ultimately bear the full cost in the case of war goods in the event of either a price increase or a subsidy, it was felt unreasonable and unnecessary to permit subsidies to be paid on such goods or on materials entering into the production of such goods. Apparently the Canadians have found it possible to isolate the effects of price increases in the field of war and production goods and prevent price pressure as a result of price increases in this sector of the economy from being exerted on civilian goods. For example, the corporation has been paying a variety of retail and producer subsidies on lumber. Since the great bulk of lumber is used in war production or by industrial consumers who could absorb the increase in costs, these subsidies were recently rescinded and price increases permitted all along the line. Consumers are protected by a ten percent discount which will be paid for by the corporation. In practice, however, price increases in the field of war and producer goods have been very limited.

7. Although subsidies are really paid to the consumer, they are technically paid to producers or primary distributors because retailers and consumers are so numerous. As a matter of administrative convenience, the general policy of the Board is to pay subsidies at the level of trade at which there are the fewest firms. This is generally the producing or importing level, In the case of most agricultural food products subsidies are paid to primary processors or distributors rather than to producers themselves, since the administrative task of making subsidy payments to innumerable individual farmers would be enormous. Processors and distributors act as agents of the corporation in paying subsidies to the primary producers and are reimbursed by the Corporation. Payment of subsidies at the lowest levels also prevents the pyramiding of cost increases and minimizes the total amount of the subsidy.

8. The reduction of costs through standardization, simplification, the elimination of unnecessary frills and services, the pooling and restriction of distribution and in general the rationalization of industry has been continually insisted upon. This is an important factor in minimizing and even removing the need for domestic subsidies.

9. A special subsidy formula was established to govern payment of subsidies on imports as distinct from domestic products. Although the Board stated that subsidies would be paid on all essential domestic products if necessary, no list of commodities which were considered essential was prepared or at least publicly announced in advance. Domestic subsidies on particular goods have been authorized from time to time as the need arose. A quite different policy was followed in regard to imports. Immediately after the introduction of the ceiling a policy was announced which provided for the payment of subsidies on all essential consumer imports at a maximum rate equivalent to the total cost increase since the base period or over the costs determined to be appropriate to ceiling prices. 1/ Unless specifically excluded, all consumer goods including equipment for the use of farmers, fishermen and other individuals in the course of personal trade or occupation, and materials to be used in the production of consumer goods are automatically eligible for subsidy. In order to minimize the cost of import subsidies and prevent the payment of subsidies on unessentials, a long list of consumer goods has been specifically excluded from subsidy. This list which has been progressively broadened during the last year covers unessential goods, goods similar to domestic products which are available at reasonable prices, and in some cases goods the production of which is prohibited in Canada. Goods, which are exempt from the price ceiling or subject to bulk purchase by the government, are not in any case eligible for subsidy.

Production goods, industrial supplies and other non-consumer goods are ineligible unless specifically ruled eligible. Goods purchased by the Department of Munitions and Supply (sole procurement agency for war material) or its agencies are specifically excluded.

Even in the case of products specifically declared eligible for subsidy, the corporation at its own discretion may deny the payment of a subsidy entirely, may refuse to pay the maximum subsidy, and may reduce and vary the subsidy at any time on the same grounds described above as governing the payment of domestic subsidies. The statement of import policy specifically denies subsidies to applicants if the total subsidy payable in any one month is less than $25 or when the increase in cost is insignificant in relation to the amounts involved. Presumably importers are asked to bear a squeeze roughly proportionate to that borne by producers and sellers. The profit control formula described above is also applied to imports, at least in many cases.

1/ WPTB, Statement of Import Policy, December 2, 1941, (revised Jan. 1, 1942, Aug. 1, 1942, Feb. 11, 1943).

In 1942 a category of goods, which is eligible for subsidy but only after prior approval, was established. This technique of determining eligibility for subsidy is being increasingly used. It is a more selective method and serves to minimize subsidy payments while at the same time safeguarding the payment of essential subsidies. This group now includes a wide variety of products. Furthermore, the corporation may at any time refuse to pay the subsidy in any case where it believes the importation was unjustified because adequate supplies of substantially similar goods of domestic origin were available at reasonable prices or when the cost of the particular goods is deemed to be excessive, e.g. if foreign suppliers attempt to take advantage of the situation or collude with importers to raise or maintain prices at unreasonably high levels.

Several methods of payment and subsidy formula are followed. A subsidy may be paid to an individual importer either for a specific commodity or class of commodities or in the case of a firm with a large volume of varied imports, the subsidy may be determined not on the basis of individual commodities but on the basis of average import costs and the firm's general profit situation. Import subsidies may be authorized on an individual cost basis but for administrative convenience uniform or flat rate subsidies based on average costs or selling prices are paid wherever possible. If a flat rate subsidy results in an increase in an individual seller's profit margin, however, an appropriate reduction in the ceiling price or subsidy must be made.

10. Government purchase and sale has been used as a means of indirect subsidy, particularly in the case of imported products. In most cases government purchase and sale is designed primarily to ensure supply. The underlying reason for centralizing all purchases in the hands of a government agency has been that the world supply available to the United Nations of many essential imports has been placed under government control. International agreements covering the allocation of such commodities frequently require that purchases be handled in each country by a government agency. In many cases, however, the corporation sells at a loss at prices consistent with the price ceiling in order to avoid the necessity of breaking the ceiling. Bulk purchasing under government auspices frequently operates to minimize or eliminate the need for a subsidy which would otherwise have to be paid, since it often results in a reduction of unit costs and permits lower selling prices than would otherwise obtain. The Wartime Prices and Trade Board has been granted broad power to buy and sell both imports and domestically produced commodities and the Commodity Prices Stabilization Corporation in addition to administering the subsidy program has also administered purchase and sale program.

11. An indirect type of import subsidy which has also been used is the reduction and remission of import duties and taxes and the modification of valuation standards for customs purposes. The Prices Board has been granted the power to recommend such action to the Department of National Revenue in cases where shortages and cost increases threaten the price ceiling and its recommendations are rarely if ever disapproved.

In addition to the remission and modification of special import taxes, of the ten percent War Exchange Tax 1/ and of ordinary tariff duties, which has been done from time to time in regard to particular commodities, several general actions have been taken decreasing import duties for all commodities. The imposition of special or dumping duties has been suspended and import and excise duties imposed in other countries may be disregarded in estimating the value for duty of such goods when imported into Canada. On individual authorization, duties may be levied on invoice value rather than fair home market value as previously required.

The use of this technique of indirect subsidy has been an important factor in the price control and subsidy program. It is administratively easy although it does not allow for selective control of the firms and industries which benefit or of the conditions determining eligibility.

12. In general, subsidies have not been authorized on a basis limiting payments to high cost producers or high cost portions of an individual producer's output. In the domestic field, a uniform subsidy is usually authorized covering an entire industry or all production of a particular commodity and the profit control formula is expected to operate to limit actual payments to those producers whose costs warrant a subsidy. The rate of the subsidy would thus be established at the level necessary to bring in the required total production irrespective of an individual producer's costs.

13. Since wages and salaries are subject to a ceiling similar to that covering commodities, the policy of the Prices Board has been to refuse subsidies to meet increased wage and cost of living bonus costs. In principle wage rates are frozen and the rate of the cost of living bonus would only be increased if the price ceiling was broken.

1/ Covers imports from the non-sterling area. This tax was introduced in order to discourage imports from outside the sterling area and thus conserve foreign exchange.

4. Commodities Subject to Subsidy

Commodities subject to subsidy may be divided into two main groups - (1) food and agricultural products (2) and non-food products. There are important differences between the underlying problems governing subsidy programs and the basic reasons requiring the payment of subsidies between these two groups. A distinction may also be made between domestic and import subsidies. Indirect subsidies in effect are also of two main types - government purchase and sale 1/ and remission and modification of duties and taxes.

a. Food and Agricultural Product Subsidies

The following food and agricultural products are now or have been at one time subject to direct subsidy.

Domestic

Domestic commodities cover: dairy products, including fluid milk, concentrated milk products, butter and cheese; a lare group of miscellaneous processed groceries; specified canned vegetables and fruits, i.e. tomatoes, peas, corn, beans, peaches, pears, plums, and tomato juice, and tomatoes, peas, corn and beans in raw form when sold for processing; specified types of jelly and jam and specified berries and fruits when sold for processing into jam; frozen eggs; potatoes; white beans; flour; shortening; transportation of beef, butter, potatoes and other foodstuffs; feed; fertilizer; wool; alfalfa; eggs for export; oats, barley and certain seeds; and apples. Some of these subsidies are primarily for the purpose of stabilizing or avoiding increases in prices while others are primarily to promote production. It is difficult to distinguish between these two types of subsidies as most production subsidies are also indirectly instituted in the interest of price stabilization, since otherwise production incentives might take the form of price increases. In the case of apples, subsidies are paid not to increase production or prevent price increases, but to take care of surpluses. Subsidies paid to offset increases in the price of wheat cannot be classified as production incentives since government policy for some years has been to secure a reduction in wheat acreage and increases in the price of wheat have been approved on social and political grounds.

Imports

Although a relatively small proportion of import subsidies have been paid on foods, some foods which are not domestically produced are or have been eligible for import subsidies. Subsidies have been

1/ See OPA, Division of Research, Foreign Information Branch memorandum "Government Purchase and Sale in Canada During The War", Foreign Information Series No. 20, June 1943 and "Government Purchase and Sale of Food and Agricultural Products in Canada During The War", Foreign Information Series No. 24, September 1943

paid on tea, cocoa, cocoa butter, cocoa beans, vanilla beans, spices, dried fruits, peanuts, cleaned and uncleaned rice, tapioca, canned corned beef, rennet, salt, lima beans, white corn, oranges, grapefruit juice, unsweetened fruit pulp, molasses and skimmed milk powder. Of these twenty commodities six - canned corned beef, lima beans, cleaned rice, tapioca, fruit pulp, and grapefruit juice - have been declared ineligible for subsidy. Six others - tea, cocoa beans, vanilla beans, spices, dried fruits and peanuts - are now ineligible for subsidy because they are subject to bulk purchase by the CPSC which resells in the domestic market at prices consistent with the price ceiling. Five items - cocoa butter, salt, white corn, uncleaned rice, and molasses - are only eligible for subsidy after prior approval. Import subsidies have also been paid on a number of agricultural supply and equipment items, such as seeds, fertilizers, and farm machinery and equipment. Due to the fact that most of the imported foods and some agricultural supply items are now subject to government bulk purchase and sale programs, subsidies of food imports have become relatively small.

Purchase and Sale

In addition to the six imported commodities listed above as subject to government purchase and sale, imports of coffee, fats and oils, sugar, and such agricultural supplies as fertilizers and pesticides are subject to indirect subsidy through government purchase and sale programs. All these items are purchased by the CPSC with the exception of sugar. All imports of sugar have been purchased by the Wartime Prices and Trade Board Sugar Administrator since the outbreak of war.

Domestic foods and agricultural products subject to purchase and sale programs by the government are very few. As a result of a serious beef shortage in the spring of 1942 the government intervened to buy and sell on the domestic market beef destined for export in order to maintain adequate domestic supplies without lifting domestic ceilings. During the summer of 1942, the corporation bought cattle at export prices and resold them on the domestic market at prices appropriate to wholesale ceilings at a trading loss of nearly $1 million.

In order to provide adequate markets for dairy butter, the normal outlets for which had been adversely affected by rationing, the CPSC has been authorized to purchase through retailers and other dealers all dairy butter offered by farmers. The corporation sells this butter to industrial users who are permitted to purchase creamery butter only under very limited conditions. A small trading loss during 1943/44 is expected.

The government has also intervened through the medium of the CPSC to assist growers and packers of vegetables and fruits. In this case the Board has not definitely contracted to purchase output but

has merely guaranteed to purchase at stipulated prices any surplus held by a canner as of a given date. This is not necessarily a subsidy but is primarily a plan designed to promote maximum production by guaranteeing a market at a minimum price for all products. In practice no purchases have been made by the Corporation.

The Canadian Wool Board operating under the Prices Board has contracted to purchase all domestically produced wool for the duration of the war and one clip thereafter. A trading loss is incurred by the Board on sales of wool for civilian use in order to maintain ceiling prices on wool textiles and which in 1942/43 amounted to $62 thousand.

The Department of Agricultrue including the various Boards operating under its supervision and the Department of Trade and Commerce through the Canadian Wheat Board have instituted purchase and sales programs designed almost entirely to ensure maximum production for flax and flaxseed of various types, soya beans, sun-flower and rape seed, vegetable seeds and dehydrated vegetables. Trading losses are incurred on the sale of flax seeds for processing in order to keep down prices and although information is not available it is possible that losses may be incurred on some of these other products. The Agricultural Supplies Board has been authorized to subsidize the actual dehydration of certain types of vegetables. This program is primarily to encourage and increase the production of supplies for war uses. The Special Products Board also purchases specified kinds of vegetable seeds, the maximum production and controlled use of which is considered vital to the war food program. In September, 1943, the government prohibited further open market operations in wheat and has become the sole purchaser of wheat.

Reduction and Remission of Duties and Taxes

Foods for which import duties and taxes have been reduced or removed include tea, coffee, oranges, sugar, rice, dried fruits, bananas and a number of fresh fruits and vegetables.

b. Non-Food Subsidies

Domestic

Domestic subsidies cover: leather footwear; garment and glove leather; a number of miscellaneous household items; soap; lumber; cheese boxes; fruit baskets; fuelwood; coal; and some miscellaneous items such mine pit props, ties, and pit wood.

Imports

The great bulk of import subsidies are paid out on non-food items. Seventy percent of the total import subsidies paid out in 1942/43 were on petroleum and in 1943/44 it is estimated that approximately 37 percent will be paid on petroleum. Another important import subsidy is on cotton and cotton fabrics, wool and wool fabrics, and other fibres and textiles. Raw cotton and cotton and cotton fabrics alone will account for 37 percent of 1943/44 import subsidies. Other types of imports which have been subsidized include chemicals, drugs, oils and paint, earthenware and glassware, metals and fabricated metal products, cutlery, and tools.

Purchase and Sale

Indirect subsidies in the form of trading losses have also been incurred on a number of non-food items. Although it is understood that trading losses during the first year of operations were chiefly on foods, this situation is expected to be reversed in 1943/44 with the great bulk of the losses occuring on on-food items principally wool yarns and fabrics, bindertwine and materials for its manufacture, industrial alcohol, cheesebox materials, bristles, chemicals and cotton yarns and fabrics.

Trading losses are also incurred by the Wartime Salvage Corporation, a corporation operating under the Wartime Prices and Trade Board. This corporation was organized in March 1942 for the purpose of acquiring and disposing of waste or used material of all kinds. In addition to regulating prices for salvage and waste materials, it organizes facilities for the orderly marketing of salvage.

Reduction and Remission of Duties and Taxes

Non-food items for which import duties and taxes have been reduced or removed include coal, vegetable fibres, alfalfa meal, second-hand bagging, tin, rubber, bindertwine, etc.

5. Details of Principal Subsidies

a. Food and Agricultural Products

Dairy Products

One of the most important and certainly the largest domestic subsidy paid has been on dairy products. The problem of establishing proper inter-relationships between the prices of milk according to various end products, either by means of price adjustments or by subsidies, has been a difficult one and has resulted in a series of price adjustments and subsidies. Considerable increases in the production of cheese and concentrated milk products have been necessary to meet war requirements coupled with a great increase in civilian demand for milk. At the same time dairy production costs have risen and since dairy products are one of the principal items in the cost of living, it has been important to prevent price increases in this field.

Temporary subsidies were first paid on fluid milk both for consumption in fluid form and for manufacture into concentrated milk products, effective December 22, 1941. 1/ The subsidy amounted to 30¢ per cwt. on milk sold for direct consumption in areas where there had been no price increase since August 1, 1941 and 40¢ per cwt. on milk sold for concentrated milk manufacture above a minimum price of $1.70 per cwt. or the current price whichever was higher. Payments were made to producers by distributors and manufacturers who were reimbursed monthly by the CPSC. The subsidy was granted as a temporary measure to ensure adequate supplies while certain inequalities in the base period price structure were corrected. Prior to the base period, increases in producers' prices in certain areas had been approved while prices in others had not increased. This subsidy was discontinued on April 30, 1942, when the Board issued a revised maximum price schedule which permitted some increases and was designed to provide adequate and equitable price returns without the need for subsidy.

Producers continued to demand higher prices, however, and in order to increase or even maintain production a subsidy seemed required. Effective September 1, 1942, a new subsidy of 25¢ per cwt. on milk for sale at retail in fluid form in markets specified by the Board was authorized. 2/

Responsibility for producer subsidies was transferred to the Department of Agriculture and on April 3, 1943, the Minister of Agriculture announced the details of the 1943/44 price-subsidy policy covering butter and milk. 3/ The 25¢ per cwt. subsidy on fluid milk was continued. Producers of milk used for concentration

1/ WPTB, Press Release No. 248, December 19, 1941.
2/ WPTB, Press Release No. 0172, August 21, 1942.
3/ P.C. 2709, April 2, 1943.

purposes were to be subsidized also at a rate of 25¢ per cwt. during the winter months of October 1943 to April 1944. During March and April 1943, the Agricultural Food Board paid similar subsidies on milk used in concentrated products.

In spite of these subsidies, supplies of milk and more especially milk products have been inadequate to meet requirements. Labor costs have increased and poor feed grain yields in Eastern Canada have resulted in the need to purchase an abnormal amount of additional feed. Farm labor is increasingly difficult to get and at the same time both civilian and military requirements in Canada have increased and export commitments to the U. K. have been stepped up. In September 1943 the government authorized an increase in subsidy rates and announced a new subsidy on cheese designed to provide additional production incentives. 1/ A maximum subsidy on fluid milk between October 1, 1943 and April 30, 1944 of 55¢ per cwt. was approved provided that in areas where the 25¢ rate was considered adequate the subsidy should be limited to that amount. The subsidy on milk used for concentration purposes was raised to 30¢ per cwt. during the same period. A new subsidy on milk processed into cheddar cheese payable at a rate of 30¢ per cwt. between October and April was also authorized. The subsidy is in addition to the premium on quality and special factory improvement subsidy already in effect.

In addition to these subsidies on dairy products paid at the production level, a subsidy at the retail level of 2¢ a qt. of milk has been in effect since December 1942. 2/ This subsidy is paid to retail distributors to compensate for a 2¢ a quart rollback in the retail price of milk introduced at this time. This retail price rollback was one of several put into effect in December 1942 to secure a reduction in the cost of living index in order to avoid the necessity of authorizing an increase in the cost of living bonus. Payments are made monthly to distributors through the chartered banks. The CPSC continues to pay this subsidy since the Prices Board remains responsible for consumer subsidies.

In order to prevent the development of an acute butter shortage indicated by a serious decline in production resulting from low prices of milk for butter manufacture relative to other uses, a subsidy of 6¢ a pound on butterfat (equivalent to 5¢ a lb. on butter) was authorized on July 1, 1942, on all creamery butter. 3/ This subsidy did not remedy the supply situation sufficiently rapidly.

1/ P.C. 7142, September 9, 1943, as amended by P.C. 7255, September 16, 1943.

2/ WPTB, Address by Hon. J. L. Ilsley, Minister of Finance, December 3, 1943.

3/ WPTB, Press Release No. 0118, July 3, 1943.

Butter rationing was introduced in December 1942. At the same time, the seasonal price increases for butter, which had been previously authorized, were cancelled in order to remove any incentive to withhold supplies and the subsidy was increased to 10¢ a pound of butterfat for the period December 21, 1942 through April 30, 1943. 1/ Early in April the Minister of Agriculture announced that a subsidy of 8¢ a lb. would be effective May through December 1943 which would be raised to 10¢ for the months January through April 1944. It is reported that the production of cheese and other concentrated milk products declined as a result of increases in butter production following the increase in the butterfat subsidy in December 1942. For this reason, no increase in the butterfat subsidy was made in September 1943 when the new cheese subsidy and an increase in the subsidies payable on fluid milk and on milk manufactured in concentrated form was approved. Prior to July 1942, returns on milk processed into butter had been out of line with prices on milk for other uses. Great increases in cheese and other concentrated milk product production has been necessary to meet British contracts.

Canned Fruits and Vegetables

Canned fruits and vegetables have been subject to subsidy since shortly after the imposition of the general price ceiling.

In March 1942 it was found necessary to institute a price rollback for canned fruits and vegetables of the 1941 pack in order to relieve a squeeze on wholesalers and retailers. Wholesalers' and retailers' base period prices had been established on the basis of advance prices quoted by canners in the spring of 1941. Canners' prices increased before the end of the base period and wholesalers and retailers found it difficult if not impossible to replace stocks under wholesale and retail ceilings. Canners' prices were therefore reduced to the lowest price charged in the spring of 1941 and wholesale prices were reduced correspondingly. Since costs had already been incurred, an inventory subsidy was authorized to compensate for this price reduction. Owners of stocks were subsidized, wholesalers to the full extent of the rollback and canners by 80% of the difference. Retailers were required to absorb the higher costs incurred on any stocks already on hand. 2/

Increasing growers' prices, which were exempt from price ceilings and increases in which were considered necessary by the government, coupled with other increased production costs required a subsidy on the 1942 pack of canned fruits and vegetables if price ceilings were to be maintained. 3/ Subsidies at specified cents per dozen cans were authorized on tomatoes, peas, beans, corn, tomato juice, peaches, pears, and plums. Part of the subsidy on tomatoes, peas, beans and corn was designed to enable canners to pay specified

---

1/ WPTB, Press Release No. 0323, December 21, 1943.

2/ WPTB, Order No. A-44 and Statement Regarding Prices of 1941 Domestic Canned Fruits and Vegetables and Subsidies Payable, March 24, 1943.

3/ WPTB, Order No. 148, June 24, 1942, amended by Order No. 186, September 8, 1942.

minimum prices to growers. These minimum prices were stated in terms of dollars per ton increases over 1941 prices. The Commodity Prices Stabilization Corporation also guaranteed to purchase at stipulated prices any surplus stocks of canned tomatoes, peas, corn and green and wax beans on hand after February 1, 1943. Only canners who paid growers' prices which exceeded 1941 prices by specified amounts as indicated above were entitled to sell to the corporation. The purchase price was slightly higher than the maximum legal prices established but lower than the maximum price plus subsidy.

A similar subsidy program has been authorized to cover the 1943 pack. 1/ Subsidies at specified cents per dozen cans will be paid by the CPSC on canners' sales of tomatoes, tomato juice, peas, corn, green and wax beans, peaches, pears and plums. The subsidies on canned vegetables will be paid at the same rate as the 1942 subsidies less that portion of the subsidy paid in 1942 to cover increased prices to growers over 1941 prices, the subsidy for which is to be paid in 1943 by the Department of Agriculture. An additional incentive subsidy for tomatoes and tomato juice has been authorized by the Prices Board of 3¢ per dozen cans of tomatoes and 2¢ per dozen cans of tomato juice.

Subsidies are payable at the following rates - cents per dozen cans - on 16 oz. cans. Appropriate rates on other sizes are also specified.

	Per Dozen Cans
Tomatoes	13¢ (28 oz. can)
Tomato juice	03½¢ (20 oz. can)
Peas	05¢ (16 oz. can)
Corn	05¢ " " "
Green and wax beans	15¢ " " "
Peaches	08¢ " " "
Bartlett Pears	20¢ " " "
Pears	20¢ " " "
Plums	10¢ " " "
Prune Plums	20¢ " " "

The Department of Agriculture has taken over the responsibility of subsidizing producers for vegetables sold to canners. The purpose of this subsidy is to provide growers with suitably higher returns over 1941 prices in the interests of maintaining or even increasing production while at the same time to avoid lifting canners' ceilings. Subsidies are payable at the following rates: tomatoes, $3 a ton; corn, $4 a ton; peas, $10 a ton (shelled weight) and $2 a ton (straw weight); and green or wax beans, $7.50 a ton. 2/

1/ WPTB, Order No. A-851, August 12, 1943.
2/ P.C. 2/2105, March 16, 1943.

17415-p. 5 846

In addition, indirect subsidies to producers of fruits purchased and used for processing have also been authorized but these are paid by the Commodity Prices Stabilization Corporation. The subsidies at specified dollars per ton of peaches, plums, and various types of pears are paid to processors but only on condition they pay growers at specified prices.

The following prices to growers and subsidies to processors have been specified:

	Price to Grower Per Ton	Subsidy to Processor Per Ton
Peaches	$130	$67.50
Bartlett Pears No. 1	100	40.00
Bartlett Pears No. 2	70	30.00
Clapp - Favorite Pears No. 1	80	30.00
Flemish Pears No. 2	55	23.75
Kieffer Pears No. 1	60	20.00
Kieffer Pears No. 2	40	17.50
Plums - All varieties	100	50.00

This subsidy supercedes a subsidy of $5 a ton which was paid in 1942 by the Prices Board on fresh peaches processed in Ontario. This 1942 subsidy was payable to processors who paid specified higher prices to growers as approved by the Ontario Farm Products Control Board. The subsidy was authorized to enable processors to sell the canned fruit under the ceiling.

A government purchase guarantee similar to that in effect in 1942 has been authorized by the Prices Board for specified kinds of canned fruits as well as vegetables. After December 1, 1943, the CPSC will purchase from canners any of the specified products at a maximum price slightly below maximum ceiling prices plus subsidy. In the case of canned vegetables and tomato juice, canners are only eligible to sell to the corporation if they paid prices to the grower equal to or exceeding 1941 prices.

Miscellaneous Processed Groceries and Household Goods 1/

In order to eliminate a serious squeeze on wholesalers and retailers resulting from the application of the general price ceiling, manufacturers' maximum prices of a broad group of miscellaneous groceries and household goods were reduced in March 1942. Manufacturers' maximum prices were rolled back three months from the highest prices prevailing in the base period to the highest prices prevailing in June 1941. A maximum subsidy to all manufacturers equivalent to the total amount of the rollback was authorized and is still in effect. 2/ Manufacturers are not eligible for subsidy,

1/ Includes some non-food and agricultural product subsidies.
2/ WPTB, Order No. 116, March 23, 1942 and Statement Re: Manufacturers' Prices of Specified Groceries and Subsidies Payable.

however, to the extent that they are earning profits in the 100% excess profits tax bracket, as defined under the Excess Profits Tax Act. In other words, no manufacturer in the 100% excess profits tax bracket is eligible for subsidy nor will he receive any subsidy which will put him in this bracket. This proviso was designed to prevent the payment of subsidies to firms whose profit situations do not warrant a subsidy as well as to minimize the total cost of the subsidy. This was the first instance in which this profit control formula was used but it has now been extended to many other subsidies.

When this subsidy was first authorized it covered more than forty different items. The number has now been reduced to about twenty-five. In some instances it was found that a subsidy was not warranted, in others the need for subsidy was removed by instituting price adjustments or standardization programs, while in still others different subsidy arrangements had to be introduced. The commodities now covered include twenty-two foods and four non-food items. 1/

It was possible through standardization to eliminate the need for subsidy for macaroni and zinc fruit jar rings, two of the commodities originally eligible for subsidy under this order. In the case of clothespins, a price adjustment involving the establishment of uniform dollar and cents ceilings at all levels removed the need for subsidy. In the case of spices and coffee, a direct subsidy is no longer necessary, since all supplies are now purchased and sold by the CPSC which sets its selling prices at levels appropriate to processors' ceilings, irrespective of cost. In the case of such important products as pot and pearl barley and puffed wheat, soap and cooking oils, maple syrup and jelly and jam, special subsidy arrangements had to be authorized to compensate for additional increases in costs.

1/ Foods - baking powder; breakfast cereals; processed coconut (sweetened); baking chocolate; cream of tartar; cocoa and chocolate with added malt in paste or powder for beverage purposes; flavoring extracts; jelly and pudding powders; mayonnaise and salad dressing; mustard-prepared and dry; canned meats (other than poultry and corned beef); canned molasses; rolled oats and oatmeal (except in bulk); peanut butter;pickles and relishes; split peas; canned pork and beans; canned soup; canned spaghetti; corn syrup; tapioca; and vinegar. Non-food - floor wax; furniture polish and shoe polish; liquid ammonia, household cleansers, household lye and washing soda; cornstarch and laundry starch. The following commodities were included originally but were removed after the program was initiated either because the squeeze was too slight to warrant a subsidy or because other arrangements were made to handle the squeeze problem. These are; evaporated apples, soda biscuits and sweet biscuits; processed cheese; mincemeat; household brooms; wax papers; toilet paper; table salt.

In the case of barley and puffed wheat a special subsidy was provided to compensate not only for the rollback in the base period to June 1941 but also to meet increased costs of grain since the base period.

Soap and Cooking Oils

This was also necessary in the case of soap and cooking oils in order to compensate for the greatly increased cost of oils and fats during 1942. The following new subsidy arrangement was introduced. Domestic subsidies are paid on inventories as of December 31, 1942 and on all purchases since that date. The rate is the difference between laid-down costs and a lower schedule of prices established by the Oils and Fats Administrator. Imported oils and fats are purchased by the CPSC and sold to manufacturers receiving the subsidy at the price established in this schedule. Assistance under this scheme on the part of soap and shortening manufacturers is voluntary. Non-participants do not receive the benefits of any government subsidy. The CPSC sells imported oils and fats to non-participants at cost. Manufacturers applying for subsidy are subject to profit control.

Maple Syrup

In the case of maple syrup a different subsidy formula was required because of the establishment of uniform dollar and cents ceilings on maple products in March 1943. A subsidy was authorized for manufacturers and packers to enable them to pay a specified minimum price to producers for maple syrup. The subsidy is payable on sales of maple syrup, maple sugar and maple butter at the rate of 4¢ per pound based on maple syrup content. The amount of maple sugar and butter on which subsidy may be claimed is limited to a fixed percentage of maple syrup sales.

Jam and Jelly

Rising costs of fresh fruits and berries coupled with an increasingly serious supply situation resulted in the authorization of a new subsidy in June 1943 to encourage the production of jam and jelly. Uniform dollar and cents prices at the manufacturing level were established at levels no higher than those prevailing during the base period. To encourage the manufacture of jam and jelly at these prices, a subsidy was authorized as follows: pure loganberry, black currant, red currant, blackberry, gooseberry, apricot, cherry, peach, grape and plum jam at 3/4¢ a lb. and No. 2 (pectin) jam of these same varieties at ½¢ a lb.; No. 2 (pectin) strawberry and raspberry jam at 1¼¢ a lb.; No. 3 (blended or compound) strawberry and raspberry jam at 3/4¢ a lb.; all grades of blackberry, bramble, black currant, red currant, grape, crabapple, apple, quince and mint jelly at 3/4¢ a lb. 1/

1/ WPTB, Order No. 787, June 25, 1943, amended by Order No. 933, October 20, 1943.

To enable the manufacturers of jam and jelly to compete with other purchasers of jam fruits, an additional subsidy was authorized by the Department of Agriculture in May 1943 on strawberries, raspberries, loganberries, gooseberries, and currants used in the manufacture of pectin and compound jams. 1/ Manufacturers must pay specified minimum prices to which the subsidy is added and claim reimbursement of subsidy from the Department of Agriculture. This arrangement takes the place of the subsidy paid by the CPSC in 1942 on strawberries produced in British Columbia.

The following subsidy rates are now in effect:

1. In British Columbia

   a) Strawberries - 6¢ a lb. of No. 1 jam and 4¢ a lb. of No. 2 jam based on a minimum purchase cost of 6¢ a lb.

   b) Raspberries - 3¢ a lb. based on a minimum purchase cost of 11¢ a lb.

   c) Loganberries - 3¢ a lb. based on a minimum purchase cost of 7½¢ a lb.

   d) Gooseberries and currants - 3¢ a lb. based on minimum purchase cost of not less than the 1942 price.

2. In Ontario and the East

   a) Strawberries - 3¢ a lb. based on minimum purchase cost of 9¢ a lb. or 11¼¢ a qt. (20 oz.).

   b) Raspberries - 3¢ a lb. based on minimum purchase cost of 10¢ a lb. or 11¼¢ a qt. (18 oz.).

   c) Loganberries - 3¢ a lb.

   d) Gooseberries and currants - 3¢ a lb. based on minimum purchase cost of not less than 1942 cost.

In addition, the CPSC is authorized to purchase at ceiling prices any jams and jellies still held by manufacturers on May 1, 1944. The CPSC is also making direct purchases during the current season of berries and fruits in British Columbia. Strawberries, loganberries, loganberries, black currants or apricots preserved or processed in specified manner are subject to this government purchase program. This program has been instituted not as a means of subsidy but principally in order to ensure equitable distribution.

1/ P.C. 1/4225, May 21, 1943, amended by P.C. 3/5410, July 7, 1943.

This subsidy covering all fruits and berries processed into jam and jelly will supercede the special subsidy paid in 1942 on strawberries for jam making. Under this subsidy processors who paid 8¢ a lb. or more for strawberries for jam making and preserving were eligible to apply for a subsidy of 2¢ a pound during 1942. This subsidy was necessitated at that time by a special problem. With the removal of Japanese labourers from the coastal area of British Columbia, abandoned strawberry acreage could not be taken over and operated except at greatly increased costs. The supply situation, however, became so serious that rationing of jam, jelly and other preserves was introduced in September 1943.

Potatoes

Several types of subsidies have been in effect covering potatoes.

A subsidy on new potatoes was in effect during the months of June, July and August 1943. 1/ Due to an acute shortage of old potatoes and the desire on the part of the Board to prevent an increase in the cost of living, the Board took action to reduce the price of new potatoes to maximum levels established for old potatoes. Wholesalers and retailers were reimbursed to the extent that their laid-down costs exceeded wholesale and retail ceilings respectively. No subsidies were payable on laid-down costs exceeding specified prices which varied downwards at stated intervals during the period of the subsidy. A similar subsidy was authorized to cover imports of new potatoes during June and July but a sudden increase in supplies from the U. S. resulted in the cancellation of this subsidy on shipments entering after July 3.

In order to help alleviate the potato shortage and facilitate the movement to Eastern Canada of surplus stocks of old potatoes in Saskatchewan and Minitoba, a temporary subsidy to cover part of the transportation costs was authorized during June 1943.

White Beans

With the establishment of maximum dollar and cents ceilings at the processor's levels which do not allow processors to pay sufficiently high prices to growers, a subsidy to be paid by the CPSC has been worked out. A maximum subsidy of 50¢ a bushel on Ontario white beans has been authorized.

Flour

In order to maintain price ceilings on bread and other wheat products in the face of rising wheat prices, millers may apply for drawbacks. This drawback is paid by the Department of Trade and Commerce

1/ WPTB, Press Release, No. 0519, June 1, 1943.

and amounted to approximately \$3 million in 1942/43. Since the price of wheat has risen from 90¢ to \$1.25, at which price wheat is now purchased by the government, the cost of this drawback or subsidy will be considerably larger this fiscal year although no precise estimate of the cost is available.

Wool

In order to encourage the production of a greater volume of good quality wool, a bonus of 4¢ a lb. has been authorized for wool delivered according to special standards of cleanliness. 1/ The cost of this bonus is shared equally by the Dominion and the Provincial Governments.

Transportation of Foodstuffs

Temporary subsidies have been paid to meet certain transportation costs of such products as beef, butter, and potatoes to encourage the movement of supplies from surplus to shortage areas. This type of subsidy is paid from time to time to meet emergency conditions.

Feeds

A government subsidy on the Eastern transportation of feed grains has been paid since 1941. 2/ Under the terms of this subsidy the government pays the full cost of Eastern transportation. A poor harvest in the Eastern province in 1943, resulting in the necessity of importing a much larger proportion of the supply from the West than before and consequently bringing about a further increase in costs, compelled the government to introduce additional assistance and subsidy programs. The government undertook to build up at its own expense emergency reserve stocks of feed grain in Eastern provinces for use in the winter. The government undertook to pay certain charges such as storage and insurance, abnormal transportation charges and other extra charges. 3/ In August the Department of Agriculture announced an additional subsidy program designed to encourage farmers to purchase feeds as far in advance as possible. A sliding scale of subsidies was established. 4/

A drawback of 8¢ a bushel has been allowed since August 1942 on wheat used for livestock feeding. In view of rising wheat prices, this subsidy was designed to bring the price of feed wheat back into line with price ceiling levels.

In order to ensure an adequate supply of alfalfa meal (a good substitute for protein feeds) a subsidy to processors was authorized by the Department of Agriculture in February 1943. The rate of subsidy is \$3.00 a ton.

1/ P.C. 1/2519, March 29, 1943.
2/ P.C. 497, Jan. 22, 1941.
3/ P.C. 7/4690, June 8, 1943.
4/ P.C. 1/5552, July 12, 1943.

Fertilizers

Fertilizer subventions are paid to compensate for increased transportation costs in order to increase use with a view to increasing production of vital wartime crops such as grain and feeds, as well as to keep down farm production costs.

As a result of a wartime shortage of commercial supplies of protein for feeds, it was desirable to encourage increased production of clover, alfalfa, and other legume crops which constitute principal sources of home grown proteins. Since legume crops require liming of the soil, special Dominion payments to provincial governments were authorized to cover transportation costs, assist in the establishment or operation of lime plants, and reduce cost of lime to farmers.

It is estimated that the subsidy on imported chemicals for fertilizer purposes will amount to $2.4 millions during 1943/44.

Apples

The apple industry has been one of the outstanding war casualties. Approximately one-half of the commercial pack was normally exported chiefly to England but as a result of the war a drastic reduction in the export of fresh apples occurred. Since the outbreak of the war, the apple industry has been indirectly subsidized. The government has undertaken to dispose of the surplus by agreeing to purchase specified quotas at guaranteed prices. These prices are supposed to provide returns to growers equivalent or nearly equivalent to what they would have realized on sales of fresh apples, in spite of the fact that a great part of the crop must be processed and could not be sold at fresh apple prices.

In connection with some of the purchase and sale operations and other types of agricultural assistance programs conducted by the Department of Agriculture and the Canadian Wheat Board, varying forms of indirect subsidies are in effect. A trading loss on flaxseed is incurred by the Canadian Wheat Board. In connection with the export price equalization program in effect for oats and barley, producers receive what amounts to a subsidy. Government purchase programs have been arranged for red clover, alsike and alfalfa seed in order to encourage and permit distribution at appropriate ceiling prices. Government financed programs to secure the production of certain field root and vegetable seed crops are also in effect.

b. Non-Food Subsidies

Textiles

Cotton, rayon, and wool are all subsidized or eligible for subsidy or partial subsidy in one form or another. Clothing and home furnishings made from such textiles are therefore indirectly subsidized.

Some imports and the entire domestic wool production are purchased by the government either through the Melbourne Merchandising Ltd., or through the Canadian Wool Board, both government corporations. The Wool Board operates under the supervision of the Wartime Prices and Trade Board and resells wool to the mills for civilian goods at prices consistent with textile and finished goods ceilings and involving some trading loss to the Board. The Melbourne Merchandising Ltd. purchases all wool required for military contracts. The prices of machine knitting cotton yarns and cotton fabrics were rolled back shortly after the general ceiling was introduced to levels prevailing in February 1941 and subsidies to cotton goods manufacturers to compensate for increased import costs of raw cotton were authorized. Raw cotton, flax, wool, rayon, selected textile manufactures, and certain fibre and fibre products are eligible for subsidy. The range of textiles eligible for subsidy has been progressively narrowed throughout the last year and a half with the object of eliminating all non-essential items. A great number are only eligible for subsidy on prior individual approval. As a result of anticipatory large-scale buying at reasonable prices, no subsidy on raw cotton was necessary during 1942/43. The cost of import subsidy on imported raw cotton and cotton products during 1943/44 is estimated at approximately $24 million.

Leather, Footwear, Glove and Garment Leather and Hides.

Subsidies are paid on leather footwear, on glove and garment leather and on hides. Maximum manufacturers' prices for shoes were rolled back to spring 1941 levels and a subsidy amounting to 7 percent of the value of sales was authorized. A simplification program was introduced and the shoe subsidy was reduced to 4 percent in July 1942. In July 1943, as a result of a new distribution of the price squeeze by authorizing a 4 percent discount on manufacturers' purchases from tanners and an increase in manufacturers' prices to retailers, which the retailer is required to absorb, the subsidy in its original form was discontinued although some type of government assistance is to be continued to those tanners who need a subsidy.

A subsidy was also granted to glove and garment leather manufacturers. A reduction was made in this subsidy in August 1942 and a further modification has recently been made.

Raw hides and skins and certain types of leather and leather products, e.g. sole leather, have been eligible for import subsidy.

Lumber

Various subsidies have been paid to both producers and retailers on certain types of lumber. These subsidies have now been withdrawn and price increases at all levels authorized. A new subsidy has been authorized to offset these price increases for certain groups of consumers such as farmers, fishermen, and other individual civilian users, who purchase lumber from time to time for use in their personal trade or occupation or for maintenance and repair purposes. This subsidy is to be

paid in the form of a rebate at a temporary rate of 10 percent subject to revision in the future on a regional basis after any necessary revisions in retail prices which may be taken. 1/

Containers

One of the major cost problems under the Canadian price ceiling has been that resulting from the increasing costs of containers. Subsidies are now payable on fruit baskets and containers and on cheese boxes. This operates as an indirect type of subsidy on the products packed in these containers and also as a technique of subsidizing the cost of lumber entering into consumer products.

Fuelwood

In order to reduce an acute wood fuel shortage in British Columbia last winter a subsidy was paid on several types of wood fuel to ensure essential supplies and in special cases on abnormally high transportation costs. In order to prevent an anticipated general wood fuel shortage this winter, a subsidy of a $1 per cord was authorized in April 1943 to all dealers on commercial fuelwood cut before June 30, 1943. 2/ The period was later extended to December 31, 1943.

6. Cost of Subsidy Program 3/

No precise figures are available indicating the cost of all wartime subsidies paid to stabilize prices and/or to encourage production in Canada. Between the establishment of the price ceiling and March 31, 1943, a total of approximately $68.5 million was paid out in subsidies or incurred on trading losses by the Commodity Prices Stabilization Corporation and the three other corporations operating under the Prices Board - The Wartime Food Corporation, the Canadian Wool Board, and the Wartime Salvage Ltd. Of this total, roughly $31 million was paid out on domestic subsidies, $10 million on miscellaneous import subsidies, $24 million on petroleum imports, and close to $3½ million incurred on trading losses.

Food and agricultural product subsidies accounted for approximately $27.6 million, of which 85% were domestic. Non-food subsidies, on the other hand, amounted to approximately $34 million of which $24 million was paid out on petroleum imports, about $4.4 million on other imports, and only $5.8 million on domestic products.

1/ WPTB, Monthly Summary August 1943, pp 3 and 4.
2/ P.C. 3465, April 29, 1943.
3/ Tables I through V attached to this memorandum.

During the calendar year 1942, the Department of Agriculture paid out a total of $71.2 million in subsidies, of which $54.9 million was paid in connection with pre-war programs of wheat reduction and prairie farm assistance. Only approximately $16.2 million was paid on wartime subsidies such as the feed freight assistance program, the feed wheat drawback and the apple assistance program.

Estimates of expenditures on subsidies payable in 1943/44 by the Commodity Prices Stabilization Corporation amount to $119 million of which $40 million is to be paid out on domestic products, $64 million on imports (including $24 on petroleum and $24 million on raw cotton and cotton fabrics), and $15 million on trading losses. No estimates are available covering trading losses expected to be incurred by the other three corporations operating under the Prices Board. These estimates are no more than rough guesses. New subsidies have been authorized since the estimates were prepared and rates are subject to change.

Domestic food and agricultural product subsidies (including trading losses) are expected to be only $30.4 million but the largest subsidies paid on food last year by the corporation and all the domestic food producer subsidies payable this year are now paid by the Department of Agriculture. No estimate is given for import subsidies on food and agricultural products but these will be very small since many of the products on which subsidies were payable last year are now subject to purchase and sale by the corporation. Trading losses on food will amount to $1.7 millions. Of the $30.4 millions estimated as payable on food and agricultural products $20 million will be paid out to compensate for the 2¢ a quart reduction in the retail price of milk which went into effect in December 1942. Other important subsidies are $2 million on canned fruits and vegetables and $1.5 million on potatoes.

Non-food subsidies will account for $74 million, of which roughly $50 million will be paid out on imports of petroleum and raw cotton and cotton fabrics. Another $5 million will be paid out on wool imports and $13 million on trading losses covering such products as bindertwine and cotton yarn for manufacturing twine, wool yarns and fabrics, chemicals for fertilizer, and industrial alcohol. Only $7.8 million is to be paid on domestic products, of which $2.3 millions is accounted for by the subsidy on leather footwear and glove and garment leather both of which have been greatly reduced if not entirely eliminated. Lumber accounts for $1.1 million, coal $1.3 million, and soap and shortening, which although officially designated as a domestic subsidy is subsidized largely because of the great increase in imported fats and oils, will be responsible for nearly $2 million.

No comparable estimates are available covering subsidies to be paid by the Department of Agriculture. An estimate for the calendar year 1943 indicates that approximately $100 million will be paid. About $28 million of this is accounted for by the wheat acreage reduction program and the prairie farm assistance program. The balance of $72 million can be considered as wartime subsidies of which $25 million is to be paid on butterfat, $10 million on milk, $2.6 on cheese, $14.5 million on the feed wheat drawback and freight assistance programs, $1.5 on vegetables sold for canning, $2.3 on apples, and $14.6 on oats, barley and flaxseed.

The current annual rate of wartime subsidy payments on food, agricultural and non-food items may be very roughly estimated at $190 million or more. The cost of all subsidies payable on food and agricultural products in 1943/44 may be very roughly estimated at a minimum of $100 million. These figures do not include whatever sum may have to be paid out in the form of a drawback or subsidy to millers on wheat. In fiscal year 1942/43, a total of $3 million was paid out by the Department of Trade and Commerce for this purpose. The government has now become the sole purchaser of wheat at a price which is considerably higher than that prevailing last year. Maintenance of ceilings on flour prices will therefore cost considerably more than last year. No figures are available for trading losses which may be incurred by the Canadian Wool Board, the Wartime Salvage Ltd., or the Wartime Food Corporation (the latter corporation is now inactive). Finally, the figure does not include subsidies, e.g. coal, which may be paid by the Department of Munitions and Supply. Certain items are also not included in the estimate of total food and agricultural product subsidies (see attached tables).

The total cost of current subsidies is approximately 2% of 1942 gross national income, and about 4% of total war expenditures estimated for 1943/44. An equivalent sum in the United States based on the difference in national income would be $3 billion.

7. Conclusion

The provision of the Canadian wage ceiling authorizing the payment of cost of living bonuses to compensate for increases in the cost of living index has presented special problems of price control. A ceiling over wages and salaries was considered essential to the maintenance of a ceiling over the prices of commodities and was introduced at the same time as the general price ceiling. In order, however, to ensure the support of labor the government guaranteed the payment of bonuses if the cost of living was not stabilized. For every one point increase in the cost of living index a bonus of 25¢ a week (with some exceptions for certain low paid workers) was required.

Although the price ceiling was effective in checking most price increases the prices of many staple foods, particularly meats, continued to increase through 1942. The cost of living index rose 2.4 points between October 1, 1941 and July 1, 1942, necessitating the payment of an increased cost of living bonus of 60¢ a week to approximately two and a half to three million workers subject to the wage control and bonus order. Four months later the index had risen another .7 points, threatening another increase in the cost of living bonus. The Board feared the effect on the price ceiling of cost increases arising from further bonus payments. Furthermore, certain important groups are not eligible for cost of living bonuses. It therefore seemed more equitable to take special steps to check the rise in the index rather than to compensate for increases through the payment of bonuses.

In December 1942, the Board adopted a new subsidy policy. Direct control of variations in the cost of living index was to be achieved through a policy of selective reduction of retail prices and the payment of subsidies wherever this was necessary. Milk, oranges, tea and coffee were the items selected for this purpose in December. The price of fluid milk sold to consumers was reduced by 2¢ a quart at retail. Maximum retail prices for tea and coffee were reduced 10¢ and 4¢ a lb., respectively, and appropriate reductions were made at all levels. Although neither tea or coffee constitute important items in the index, they are widely consumed and the fact that the entire supply of both commodities is purchased and sold by the government contributed to the ease of a price reduction, which merely involved lowering the government selling price. Orange prices were reduced to base period levels by removing the customs duty and the war exchange tax and authorizing a subsidy to meet increased import costs. The total weight of these four foods in the food component of the cost of living index is 18%, approximately 6% of the total cost of living index. Shortly afterwards banana prices were reduced by means of the removal of the customs duty, war exchange and special excise tax and butter prices were reduced, the provision for seasonal increases being eliminated and the subsidy

on butterfat increased. As a result of these reductions, together with some seasonal declines, the food index fell 5.5 points by January 1, 1943, and the total index declined 1.7 points thus eliminating the immediate necessity of increasing the cost of living bonus. By the use of this technique, subsidies are not paid to finance wage increases but are paid to prevent wage increases.

In spite of the considerable drop in the cost of living index as a result of the price rollback for these goods, the index has continued to increase and by October 1, 1943 was 1.4 points above the figure for July 1942, when the last cost of living bonus was authorized, necessitating an increase in the bonus of 35¢ a week. Although the subsidy policy adopted last December in regard to milk, oranges, tea and coffee was designed to use subsidies to prevent any increase in bonus payments, the government has not continued this policy and has evidently decided not to attempt to hold the cost of living index rigidly stable at least to the extent of avoiding increases in the bonus by means of subsidies.

In connection with this particular subsidy technique it is perhaps of interest to note that subsidies were not necessarily paid on the commodities which had shown the greatest price increases and because of which subsidies were considered necessary. Increases in the price of beef and other meats, for example, had been the major cause of the rise in the cost of living index. One logical remedy would appear to be the payment of a direct subsidy on meat but the Board apparently rejected this proposal. In the absence of control over livestock prices and because of the particularly complicated price structure of meats, it may have been considered too difficult to exercise the proper control over a meat subsidy. Since, however, the purpose of the subsidy program was to stabilize the total cost of living index and since the Board pointed out that the payment of subsidies was not intended to benefit any particular industry or firm but was merely a method of stabilizing prices in general and protecting the consumer, it did not appear illogical to select the recipients of subsidies on the basis of administrative and economic effectiveness of control rather than of special need. For this reason the Board selected commodities such as tea, coffee, milk and oranges, which presented relatively simple subsidy problems as well as constituting important items in the cost of living. In two cases, tea and coffee, the supply was purchased and sold entirely under government auspices. In the other two cases the source of supply and the fact that the price structure was already subject to control at all levels were important factors.

The importance of effective price control as a factor in stabilizing labor costs cannot be overemphasized. The Canadian government realized that the wage ceiling could not be held or even

justified unless the cost of living was stabilized. Although compensatory increases in labor income in the form of cost of living bonuses were guaranteed in the event living costs did increase, the price control and subsidy program has been administered at least until recently particularly with a view to preventing increases in the cost of living index, since increased bonus payments would in turn exert increased pressure on prices and encourage the spiral of inflation. In one particular instance, described above, a subsidy was authorized specifically to prevent the index from rising and to avoid an increase in the cost of living bonus. The fact that Canadian price control has kept the cost of living index from rising more than 3% in the twenty-two months since the ceiling was introduced has been a major factor in stabilizing wages. Since the Canadian government repeatedly states that price control cannot be effective without the payment of subsidies, the direct relation of subsidies to the stabilization of labor costs is obvious. It is true that Canadian labor has criticized the cost of living index as a true measure of the cost of living and has increasingly protested the strict administration of the wage ceiling demanding increases in wage rates. The National War Labour Board has so far refused to authorize wage increases except in a few instances chiefly where wage rates have been abnormally low. No provision for increases in wage rates is permitted to correct inequitable conditions or in cases of hardship. Unfortunately statistics on the trend in wage rates since the establishment of the ceiling are not available. Monthly indexes of per capita weekly earnings in eight leading industries are available and although there has been an increase of approximately 13% in weekly earnings since the establishment of the ceiling it is due only partly to increases in wage rates. The increase in earnings is due mainly to longer hours, overtime at higher rates of pay, increased production at piecework rates, upgrading, and other factors.

Organized labor has become increasingly dissatisfied with the wage ceiling during the past two years, and has demanded its relaxation. Bonus payments are not on an equal basis. Some workers receive weekly bonuses of $4.60 to compensate for the full increase in the cost of living index since August 1939 while others are only eligible for the 95¢ bonus authorized since the introduction of the ceiling. Workers are demanding a complete overhauling of labor policy and legislation and many strikes have been called to back demands for recognition as well as wage increases. Last spring the War Labour Board held open hearings on the whole labor problem and prepared a report and recommendations. The Cabinet is at present discussing future labor policy and the question of revising the wage ceiling controls. It is anticipated that the wage ceiling may be relaxed at least somewhat and the bonus scheme rejected with bonuses now payable incorporated within the wage structure itself. This appears to be the reason why the government decided not to continue a subsidy policy designed to prevent increases in bonus payments.

Since it is clear that the bulk of the domestic subsidies are paid on foods and other agricultural products, a brief description of agricultural price policy should be of interest. The general price ceiling covers all goods and a broad range of services 1/, with a few exceptions principally in the agricultural field.

Farmers' prices on sales to dealers and processors of many important food products such as livestock, poultry, eggs, and dairy products have been exempted from the price ceiling. Wholesale and retail prices of these products, however, are subject to ceilings. The prices of fresh fruits and vegetables were originally exempted from price control at all levels. From time to time during the past twenty-two months, however, ceilings over the prices of and markups on many fresh fruits and vegetables have been introduced in order to prevent the prices of these foods from advancing to or remaining at unreasonably high levels. No domestically grown fresh fruits and, with one possible exception, no green vegetables are included in the Canadian cost of living index although these products are important items in the cost of living.

These exemptions have been authorized because price control of these products particularly at the farm level is very difficult dut to wide seasonal fluctuation in supply and prices, to regional differences, to the large number of individual transactions, and particularly in the case of fruits and vegetables to wide variations in size and quality. It was hoped that ceilings at the processing and wholesale level would operate to keep farm prices down to reasonable levels. On the other hand, farm production costs have increased, particularly labor costs (wages of farm labor are exempt from the wage and salary ceiling), and it has been necessary to increase agricultural production tremendously particularly in the livestock and dairy products field to meet war requirements, both domestic and military, as well as export commitments to Great Britain, which has relied heavily on Canada for many food products. Subsidies have been particularly necessary in this field in order to maintain and increase agricultural production while at the same time maintain domestic ceilings over consumer food prices. The fact that it has been found impracticable in many instances to place price ceilings over agricultural products particularly at the producing level has been a major factor necessitating the payment of subsidies in this field. Effective price control is an important factor in an effective subsidy program. The absence of price control over live cattle has, for example, made control of meat prices at the processing and retail level particularly difficult at various times although the

---

1/ Including public utility, and transportation rates, warehousing and storage, repairing, manufacturing processes performed on a custom or commission basis, and the supplying of meals.

price, supply and distribution situation appears to be fairly satisfactory now in spite of the fact that live cattle are still exempt from control and processors' and retailers' prices are subject to dollar and cents ceilings. It is important to realize, however, that the Canadian Prices Board has unrestricted and final power to control all agricultural prices. There is no statutory or administrative limitation on the power of the Board to fix prices at any level.

The necessity of subsidies as a technique of effective price control has been consistently emphasized throughout the two years of the Canadian price ceiling. In a speech before the Chicago Better Business Bureau in the spring of 1943. 1/ Mr. Donald Gordon, Deputy Governor of the Bank of Canada and Chairman of the Wartime Prices and Trade Board, said "our experience leads me to say, rather definitely that a price ceiling policy cannot be successful unless there is an acceptance of this principle and a judicious but unhesitating application of it when the need is apparent". Furthermore, Mr. Gordon went on to say "we have found in practice that it has not been necessary to pay out anything like the sums which some pessimists predicted". He emphasized that "we have found that our declared willingness to provide such subsidies has enabled us to....reach agreements between parties providing for a fair sharing of increased costs without actually paying a subsidy at all", and that he is convinced that in many cases such arrangements could not have been made "if a willingness to subsidize in case of a proven need had not been expressed in advance".

In another speech Mr. Gordon argued "If instead of subsidies, price increases were allowed to take place, then not only would you have indiscriminate and haphazard dislocations of inflation but as well, the elected representatives of the people would have no means of influencing the situation". 2/ By the use of subsidies the distribution of cost increases may be effectively and equitably controlled by the government. "Nor can we make one rule for food prices and another for other kinds of commodities", continued Mr. Gordon. "Food prices represent one-third of the wage earner's cost of living and higher food prices bring higher wage rates". 3/

Although total price stabilization subsidy payments, excluding subsidies paid primarily as production incentives rather than price stabilization measures, may amount to $120 million or more during the current fiscal year, it has been estimated by the Prices Board that

1/ "The Planning of Wartime Controls in Canada", an address by Donald Gordon Chairman of the Wartime Prices and Trade Board before the annual meeting of the Chicago Better Business Bureau, Chicago, February 9, 1943.
2/ Annual meeting of the Vancouver Board of Trade, January 26, 1943, p. 4.
3/ Annual meeting of the Vancouver Board of Trade, January 26, 1943, p. 6.

savings to the Canadian consumer as a result of the first year of the price ceiling amounted to approximately $400 million.

The effect of subsidies on production is extremely difficult to ascertain and evaluate. Subsidies paid by the Prices Board through the CPSC are primarily price stabilization subsidies although such programs as the dairy products subsidies, originally paid by the CPSC and now paid by the Department of Agriculture, are now considered primarily production subsidies. In any event a price stabilization subsidy is directly or indirectly a production subsidy as well since it is only instituted in cases where essential production would not be forthcoming under existing price ceilings. It should be recognized, however, that there are many other factors, particularly in the agricultural field, as important as subsidies in limiting or promoting production such as weather conditions and the availability of labor and mechanical equipment. Furthermore, the effectiveness of a production subsidy should not be determined solely in the light of absolute increases in production. A subsidy may have been necessary just to maintain production or to prevent a serious decline. Although it is difficult to determine the exact effect subsidies have exerted on production in Canada, it should be pointed out that agricultural production has increased significantly during the war period. For example, hog marketings in 1942 were 93% higher than in 1938, cheese production was up 60%, poultry approximately 32%, eggs slightly more than 28%, cattle marketings nearly 18%, and total milk more than 8%. During the first nine months of 1943 inspected cattle slaughterings were up 9% over last year, hog slaughterings were up 7%, fluid milk production was up 9%, creamery butter production 13½%, and milk used for concentration purposes had increased 6%. Production of cheese showed a marked decline but the price and subsidy policy followed had been designed to increase butter production even at the expense of cheese output. Declines in vegetable and fruit production this year resulting inevitably in smaller packs of canned products may be attributed primarily to unfavorable weather and labor conditions. On the whole it appears reasonable to state that the Canadian subsidy program has proved a useful and necessary production incentive technique.

TABLE I

CANADA: SUBSIDIES PAID OUT BY THE COMMODITY PRICES STABILIZATION CORPORATION

January 1, 1942 through March 31, 1943

Domestic Subsidies

Milk - producers	$ 5,079,750.76
Milk - consumers	3,660,360.28
Butterfat	10,078,597.58
Footwear	3,272,489.89
Garment Leather	1,283,519.37
Harness	15,435.69
Coal	1,185,646.77
Canned Fruit and Vegetables	1,773,828.22
Groceries and Household items	1,536,573.39
Strawberries	72,285.88
Cereal Products	3,695.30
Pit Props and Mine Ties	7,991.40
Fertilizer	31,153.37
Butter - transportation	24,375.96
Butter - inventories	212,160.35
Cheese Boxes	6,158.76
Tea and Coffee inventories	2,682,397.73
Peaches	52,990.37
Fuelwood (British Columbia)	647.45
Wagon Mine Coal	374.45
Freight on Flaxseed	19,487.07
Total	$30,999,920.04

Import Subsidies

Animals, Agricultural Products, Fish and Provisions	$ 3,704,059.31
Sugar, Molasses, and Manufactures	21,517.45
Beverages 1/	212,539.40
Pulp, Paper and Books 2/	40,860.81
Chemicals, Drugs, Oils and Paint (including fertilizers and excluding petroleum)	151,333.95
Petroleum	24,028,437.12
Earths, Earthenware and Stoneware	57,155.72
Metals and Manufactures	34,215.99

Import Subsidies (cont'd)

Wood and Manufactures		4,819.98
Cotton, Flax, Hemp, Jute and other Fibres and Silk, Wool and Manufactures		4,109,026.43
Miscellaneous		1,797,620.65
	Total	$34,161,586.81
Trading Losses		$ 2,111,383.28
Total Domestic and Import Subsidies		$65,161,506.85
Total Subsidies and Trading Losses		67,272,390.13
Expenses - Administrative		445,259.40
	Grand Total	$67,718,149.53

Source: Dominion of Canada, Report of the Wartime Prices and Trade Board, September 3, 1939 to March 31, 1943, pp. 101-111.

1/ The entire subsidy was paid on grapefruit juice.
2/ Primarily cigarette paper.

Office of Price Administration
Division of Research
October 25, 1943

TABLE II

CANADA: ESTIMATED 1943/44 SUBSIDIES PAYABLE BY
THE COMMODITY PRICES STABILIZATION CORPORATION

Estimates for the Fiscal Year Ending March 31, 1944

Domestic Subsidies

Basket manufacturers		$ 750,000
Butterfat		3,000,000
Butter stocks		350,000
Canned fruits and vegetables		2,000,000
Cereal products		5,000
Cheese boxes		40,000
Coal		1,300,000
Coffee and tea inventories		400,000
Frozen eggs		40,000
Fertilizers - (transportation)		80,000
Glove and garment leather		1,175,000
Groceries and household items		2,000,000
Leather footwear		1,200,000
Lumber		1,100,000
Milk - production		1,100,000
Milk - consumers		20,000,000
Soap and shortening		1,850,000
Peaches		15,000
Pit props and mine ties		20,000
Pit wood		375,000
Potatoes		1,500,000
Transportation - foodstuffs		200,000
Miscellaneous		1,500,000
	Total	$40,000,000

Import Subsidies

Raw cotton and cotton fabrics		$24,000,000
Petroleum products		24,000,000
Wool		5,000,000
Miscellaneous		11,000,000
	Total	$64.000,000

Estimates for the Fiscal Year Ending March 31, 1944 - Cont'd.

Trading Losses 1/

Alcohol (industrial)		$ 700,000
Beeswax		20,000
Bindertwine		240,000
Bristles		240,000
Butter - dairy		40,000
Cheese box materials		60,000
Chemicals (fertilizer)		2,400,000
Cocoa beans		500,000
Cotton yarn for bindertwine		5,600,000
Dried fruit		1,200,000
Wool yarns and fabrics		4,000,000
	Total	$15,000,000
Total Domestic and Import Subsidies		104,000,000
Total Subsidies and Trading Losses		119,000,000
Expenses - administrative		1,000,000
	Total estimated expenditures	$120,000,000

Source: House of Commons Debates, July 8, 1943, p. 4633-34.

1/ Trading losses will be realized on other commodities, notable examples being cotton yarns and fabrics and oils and fats, but these commodities will also be subject to domestic and/or import subsidies and estimates under subsidies include anticipated trading losses.

Office of Price Administration
Division of Research
October 25, 1943

1-6579-P42

TABLE III

CANADA: SUBSIDIES PAID IN 1942 ON AGRICULTURAL PRODUCTS (EXCLUDING THOSE PAID BY COMMODITY PRICES STABILIZATION CORPORATION AND OTHER CORPORATIONS OPERATING UNDER THE WARTIME PRICES AND TRADE BOARD)

Wheat Acreage Reduction Program		$22,297,670
Prairie Farm Assistance		14,471,060
Prairie Farm Income		18,175,114
	Total	$54,943,844
Apples		2,257,620
Cheese - quality premium		1,730,919
Cheese - factory improvement		203,732
Eggs - export subsidy		918,224
Feed Freight Assistance		9,832,004
Feed Wheat - drawback		333,720
Fertilizer		975,275
	Total	$16,251,494
	Grand Total	$71,195,338 1/

Source: Financial Post (Toronto), September 25, 1943, p. 2; data supplied by the Wartime Prices and Trade Board; Appendix to the (Canadian) Budget 1943/44, p. 23.

1/ Does not include amount of drawback paid by the Department of Trade and Commerce to millers in order to maintain price ceilings on flour in view of the increase in the price of wheat. The cost of this drawback amounted to $3 million in fiscal 1942/43.

Office of Price Administration
Division of Research
October 25, 1943

TABLE IV

CANADA: ESTIMATED SUBSIDIES TO BE PAID IN 1943 ON AGRICULTURAL PRODUCTS (EXCLUDING THOSE PAID BY THE COMMODITY PRICES STABILIZATION CORPORATION AND OTHER CORPORATIONS OPERATING UNDER THE WARTIME PRICES AND TRADE BOARD)

Wheat Acreage Production program		$25,000,000
Prairie Farm Assistance		3,000,000
	Total	$28,000,000
Apples		$ 2,300,000
Butterfat		25,000,000
Cheese - quality premium		1,400,000
Cheese - factory improvement		200,000
Cheese - production bonus		1,000,000
Eggs - export subsidy		40,000
Feed Freight Assistance		12,000,000
Feed Wheat - drawback		2,500,000
Fertilizer		750,000
Fruits (to be processed into jam)		450,000
Milk (producers)		10,400,000
Vegetables sold for processing		1,500,000
Alfalfa meal		100,000
Barley 1/		7,000,000
Flaxseed 2/		1,600,000
Oats 1/		6,000,000
Wool - quality premium		125,000
	Total	$72,365,000
	Grand total	$100,365,000 3/

Source: Financial Post (Toronto), September 25, 1943, p. 2.

1/ Payments in connection with export price equalization program.
2/ Trading loss.
3/ Does not include amount of subsidy, drawback or trading loss which will be incurred by the government in connection with maintaining stable wheat costs to millers. In 1942 this subsidy took the form of a drawback to millers paid by the Department of Trade and Commerce and amounted to $3 million in fiscal 1942/43. If ceilings on flour prices are to be maintained the cost of this subsidy or drawback will be considerably greater in 1943 due to the increase in the price of wheat.

Office of Price Administration
Division of Research
October 25, 1943

TABLE V

CANADA: SUMMARY OF COST OF WARTIME SUBSIDIES
1942/43 and 1943/44

Total Subsidies (including trading losses) Paid Out By Commodity Prices Stabilization Corporation January 1, 1942 - March 31, 1943	$67,272,890.13
Total Subsidies (exclud. trading losses)	65,161,506.85
Total Domestic	30,999,920.04
Total Import	34,161,586.81
Total Trading Losses	2,111,383.28
Total Subsidies Paid on Food and Agricultural Products 1/	27,609,711.96
Total Domestic 1/	23,671,595.80
Total Import 2/	3,938,116.16
Total Non-Food Subsidies 1/	34,217,600.85
Total Domestic 1/	5,791,750.85
Total Import 2/	28,425,850.00
Total Trading Losses Incurred by Other Corporations Operating Under the Wartime Price and Trade Board, January 1, 1942 - March 31, 1943	1,329,145.31
Wartime Food Corporation 3/	831,497.90
Canadian Wool Board	62,019.96
Wartime Salvage Ltd.	435,627.45
Total Subsidies Paid on Agricultural Products (excluding those paid by Corporations Under Wartime Prices and Trade Board) in 1942 4/	71,195,338.00
Wheat Reduction, Prairie Farm and Income Assistance Programs	54,943,844.00
Other	16,251,494.00
Total Estimated Subsidies(including trading losses) Payable by Commodity Prices Stabilization Corporation Fiscal Year 1943/44	119,000,000.00
Total Domestic	40,000,000.00
Total Import	64,000,000.00
Total Trading Losses	15,000,000.00
Total Food Subsidies 5/	30,430,000.00
Total Domestic 5/	28,690,000.00
Total Trading Losses	1,740,000.00
Total Non-Food Subsidies 5/	74,070,000.00
Total Domestic 5/	7,810,000.00
Total Import 5/	53,000,000.00
Total Trading Losses	13,260,000.00

Total Estimated Subsidies Payable on Agricultural Products (excluding those paid by Corporations Under Wartime Prices and Trade Board) in 1943. 6/	$100,365,000.00
Wheat Reduction, Prairie Farm and Income Assistance Programs	28,000,000.00
Other	72,365,000.00

1/ Excludes portion of $1,536,573.39 subsidy paid on groceries and household items which was paid on foods and non-foods respectively and trading losses incurred on food and non-food respectively.

2/ Excludes portion of $1,797,620.65 subsidy paid on miscellaneous items which was paid on foods and non-foods respectively. Import subsidies paid on beeswax are classified as a food and agricultural product subsidy in 1942/43 but trading losses on this commodity in 1943/44 are covered under non-food subsidies.

3/ On sales of beef cattle in summer of 1942.

4/ Excludes drawback paid to millers on wheat.

5/ Excludes portion of $2 million estimated as payable on groceries and household items, portion of $1,500,000 estimated as payable on miscellaneous domestic products and portion of $11 million estimated as payable on miscellaneous import subsidies, which will be paid on food and non-food products respectively.

6/ Excludes drawback, subsidy, or trading loss payable to millers on wheat.

Office of Price Administration
Division of Research
October 25, 1943

3 0112 098206524